



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

June 9, 2010

To: Supervisor Gloria Molina, Chair  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## HALL OF JUSTICE REPAIR AND REUSE PROJECT

On May 11, 2010, your Board directed my office, with the assistance of relevant County departments, to report back on the Hall of Justice Repair and Reuse Project, with the following information:

- An update on the financial analysis that compares lease cost savings by transferring departments with the highest cost leased space from leased space to a renovated Hall of Justice, utilizing construction and financing costs that could be realized with the benefit of Build America Bonds (BABs), and the offset of Federal Emergency Management Agency (FEMA) and American Recovery and Reinvestment Act (ARRA) funds;
- Recommend a competitive procurement method to select a contractor or developer to perform the renovation in a timeframe that will best allow the County to take advantage of the current economic conditions and meet the timeframes for realizing the Federal financial assistance;
- Review the available development models, including "lease-leaseback" and "design-build", and recommend the most advantageous development structure for the restoration project; and
- Determine if the County should immediately authorize any necessary updating or completion of the seismic retrofit design in order to expedite the project or as needed to meet the Federal deadlines.

*"To Enrich Lives Through Effective And Caring Service"*

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## **Background**

The Hall of Justice Repair and Reuse Project entails seismic retrofit of the earthquake-damaged building into a usable office building, while preserving and restoring selected historic features. The project will include the repair of the interior and the development of a new multi-level garage with parking for 1,000 cars on site, along with landscape and hardscape improvements, architectural and security lighting, and necessary upgrades to utility systems.

In addition, the project will include the restoration of core and shell elements of the building, the cleaning, refurbishing, and repair of the historic exterior and certain historically significant interior areas, and tenant improvement equipment and furnishings. Schematic design documents are complete for both the restoration project and the structural retrofit design.

As we reported on May 11, 2010, the removal of debris and hazardous materials, demolition of interior nonstructural elements and utilities, management of historic elements, and design of a structural upgrades have been completed at a cost of \$17.6 million. Based on our most recent estimates, we anticipate the remaining design and rehabilitation work will cost approximately \$216.4 million and will require three to three and a half years to complete.

## **Construction Cost and Financing Opportunity**

The current estimate of \$216.4 million in remaining construction costs represents a significant reduction from previous estimates of approximately \$285.0 million. This reduction reflects the industry-wide decline in costs due to the recent recession and presents an opportune time to review the recommencement of project activities.

In addition, the ARRA authorized several long-term financing mechanisms that offer potentially significant savings in financing capital improvements. Such mechanisms include BABs, for which the Federal government will reimburse issuers for 35 percent of interest costs. Under the ARRA provisions, the County can issue BABs to finance a County-awarded construction contract.

To qualify for reimbursement, however, the BABs must be issued no later than December 31, 2010. The U.S. Congress is currently considering an extension of this deadline at a lower reimbursement rate during the extended period. In order to apply the full benefits of currently low construction costs and the discounted interest costs available through ARRA BABs to the Hall of Justice Repair and Reuse Project, a

contract to complete the project must be awarded no later than early November 2010. Accordingly, we have developed a process that will:

- provide a space program that will generate sufficient savings through the cancellation of existing space leases to offset debt service payments;
- determine and confirm the most cost-effective approach to completing the rehabilitation of the Hall of Justice;
- ensure your Board will be in position to award either a design-build construction contract or execute a lease-leaseback agreement in October 2010; and
- enable the County to optimize current construction cost and financing opportunities.

The space program is currently under development with completion anticipated in July 2010. Based on the progress made to date, we are comfortable that sufficient savings can be generated through the cancellation of existing space leases to offset estimated debt service requirements under BABs.

With respect to identification of the most appropriate development approach, we are proceeding with concurrent proposal processes for the selection of design-build teams and lease-leaseback developers. The implementation of both processes will competitively determine and confirm the most advantageous approach to completing the Hall of Justice's rehabilitation and enable your Board to execute final agreements in October 2010.

### **Space Program and Optimization of Lease Cost Savings**

Savings from the cancellation of space leases has served as the primary basis for funding the renovation costs under this project. While we had originally considered a number of departments, including this office and the Department of Parks and Recreation, our current plans are focused on consolidating the justice-related departments, including the Sheriff, District Attorney, Public Defender, and Alternate Public Defender, in a manner that would improve the efficiency and effectiveness of each department's operations as well as optimize savings through the cancellation of existing space leases.

Based on preliminary debt service projections, we are anticipating annual debt service payments of \$8.6 to \$9.0 million (depending upon interest rate assumptions) commencing in 2012-13. Annual debt service payments would increase incrementally to a high of \$19.3 to \$20.0 million over a 30-year term. Total debt service over a 30-year term is estimated to cost between \$400.5 million to \$415.0 million.

To offset these debt service requirements, lease savings of at least \$9.0 million in 2012-13 are necessary. Lease costs generally increase each year in conjunction with the consumer price index (CPI), which has averaged about three percent per year over the last several years. In addition, every 15 to 20 years, lease costs increase dramatically, up to double the basic, inflated lease costs for a five-year period, to accommodate needed tenant improvements/refurbishments. Based on these assumptions and an annual CPI increase of three percent, the cancellation of \$9.0 million in leases in 2012 would escalate annually and save approximately \$606.0 million over a 30-year term, which would more than offset the estimated debt service levels.

The space program under development entails the movement of the three attorney departments from currently occupied space in the Hall of Records, which would then be backfilled by other County departments currently in high-cost leased space. Similarly, the Sheriff's current headquarters in Monterey Park would be partially vacated as the Hall of Justice becomes the new Sheriff's headquarters with a backfill of the current headquarters by staff in leased space, which would reduce the Sheriff's lease payments. The Sheriff is also reviewing the relocation of staff from STARS Center in Whittier to Monterey Park to make better use of the STARS property.

The amounts of space to be utilized by the four departments will depend both on the finalization of the space to be occupied. In the past three weeks, we have worked with Nadel Architects to develop preliminary blocking for the various groups. The initial scenario reflects space requests of approximately 195,000 square feet of the rentable floor space by the Sheriff, 117,000 square feet by the District Attorney, 20,000 square feet by the Public Defender, and 41,400 square feet by the Alternate Public Defender. Approximately 13,000 square feet is currently unprogrammed. The value of cancelled leases under the current space plan is estimated at \$11.0 million in the current fiscal year. Even with no escalation between now and 2012, the estimated lease savings exceeds our 2012 target by \$2.0 million.

The space plan will continue to be refined and is anticipated to be finalized and presented to your Board for approval by the end of July 2010. It will be incorporated into the Request for Proposals (RFP) documents that will be released to prospective developers and design-build teams in August 2010.

## **Procurement Methods**

Several procurement methods have been reviewed to determine the most cost and time efficient approach to completing the remaining renovation work. The traditional low-bid construction method was rejected due to its extended design and bid time requirement. It was estimated that a construction contract would not be awarded until mid-2012.

A contract award under either the design-build or developer driven lease-leaseback approach, however, could be achieved in substantially less time. Under the design-build approach, we would solicit and select a design-build team through an RFP process pursuant to the County's current Design-Build Policy. It is estimated that the RFP could be issued by August 2010, and a contract awarded in October 2010. The County would be responsible for financing the cost of the design-build contract, which we would recommend accomplishing through the issuance of BABs. The County would retire the BABs through annual payments over a 30-year term.

Under the developer-driven lease-leaseback approach, the site would be leased to a developer, who would complete the renovation and lease the renovated building back to the County. We would select the developer through an RFP process along the same timetable as under a design-build approach with the award of a lease-leaseback agreement in October 2010. The selected developer would be responsible for financing the improvements, which the County would repay under the lease-leaseback agreement over a 30-year term with reversion to County ownership at the end of the lease.

Upgrade of existing structural plans to comply with current building codes will be a requirement placed on the selected developer or design-build team, in order to limit the County's potential exposure attributable to the development of such plans.

## **Thomas Properties Analysis**

In order to assess the costs and benefits of our standard design-build methodology versus using a developer-driven lease-leaseback process, we retained Thomas Properties Group, Inc. (Thomas Properties), through the CEO's delegated authority. Thomas Properties provided a preliminary report, which concluded:

- There is no reason to believe that a developer's hard and soft project costs would be significantly different from those of a design-builder, or that the actual contractors would be of better or worse quality under one project delivery method or the other;

- Lower financing costs are available to the County than to developers at this time. This variance is heightened by the availability of financing mechanisms under the ARRA.
- Thomas Properties estimates a triple net annual occupancy rate of \$37.54 per square foot under the design-build approach versus a \$43.25 per square foot under a developer lease-leaseback structure. In terms of debt service, it is estimated the design-build approach would cost approximately \$68.0 million less than the developer lease-leaseback approach over a 30-year term.

Thomas Properties caveats these conclusions, however, stating that “short of processing a dual Request for Proposals that allows respondents to submit under one or both project delivery methods, a true comparison is difficult.”

As such, on May 11, 2010, we recommended, and your Board approved, proceeding concurrently with RFP processes for the selection of a design-build team as well as a developer for a lease-leaseback agreement to complete the renovation of the Hall of Justice. In October, we will present recommendations for the award of a design-build contract or a developer lease-leaseback agreement based on the outcome of these RFPs, including final proposed costs. We will also present recommendations with the Treasurer and Tax Collector regarding the issuance of long-term bonds authorized under ARRA if your Board chooses to proceed with the design-build approach. This timetable will allow renovation activities to commence and financing to be obtained in November 2010.

I am available to discuss this matter with you at your convenience, or your staff may contact Michele Vercoutere at (213) 893-2476 or Jan Takata at (213) 974-1360.

WTF:SK:DJT  
MV:JK:zu

c: Executive Office, Board of Supervisors  
County Counsel  
Alternate Public Defender  
District Attorney  
Public Defender  
Sheriff